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Human settlements: policy options and possible actions to expedite implementation

Report of the Secretary-General

Summary

Sustainable human settlements development requires a coherent and proactive policy approach to land use, housing, urban services, infrastructure and environment. While there are many examples worldwide demonstrating the impact of local policies and programmes on reducing urban poverty, faced with the prospect of further growth of slums and informal settlements, the challenge is to find solutions that work at both city and nationwide scales. Where slums and informal settlements host the majority of the rapidly growing urban population, sustainable urban development cannot be separated from slum upgrading and slum integration into the wider urban economy. The economic, social and environmental interdependence between rural and urban areas requires an approach to sustainable human settlements development that is both balanced and mutually supportive.

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Contents

		Paragraphs	Page
I.	Introduction	1–4	3
II.	Housing, tenure security and urban land management	5–36	3
	A. Housing the urban poor	5–17	3
	B. Security of tenure and access to land	18–23	6
	C. Land use, urban planning and transport	24–31	8
	D. Participation and partnership for housing and urban services provision	32–36	9
III.	Developing a policy environment supportive to employment and enterprise development	37–52	10
	A. Employment in construction	38–41	10
	B. Promoting the development of small enterprises	42–46	11
	C. Addressing the employment needs of special groups	47–52	12
IV.	Mobilizing financial resources	53–75	13
	A. Promoting community-based approaches to the financing of infrastructure and housing	57–62	14
	B. Promoting and scaling-up microfinance schemes	63–67	15
	C. Developing market-based financial instruments and institutions	68–73	16
	D. Technical and financial assistance	74–75	17
V.	Moving ahead: towards a framework for action	76–80	17

I. Introduction

1. At its twelfth session, the Commission on Sustainable Development reviewed the state of implementation of the goals and targets in the thematic areas of human settlements, water and sanitation as contained in Agenda 21, the Programme for the Further Implementation of Agenda 21 and the Plan of Implementation of the World Summit on Sustainable Development (Johannesburg Plan of Implementation). The Chair's summary identified constraints, obstacles, and continuing challenges to the implementation of these goals and targets, including the Millennium Development target on slums. The focus of the present report is human settlements.

2. Building on the outcome of the Commission's twelfth session, the present report presents policy options and possible actions to address the constraints and obstacles to making progress in implementing the goals and targets related to human settlements, taking into account intergovernmental commitments made at the global level. Individual countries will need to assess for themselves which of the policy options and possible actions would help them to advance implementation, based on their own specific conditions and needs. The report provides a point of departure for the discussions at the intergovernmental preparatory meeting, the outcome of which will be considered by the Commission at its thirteenth session.

3. The present report is based on data and information drawn from various sources, including but not limited to the United Nations system, national and regional information, other international organizations and major groups and other sources as cited in the report. The United Nations Human Settlements Programme (UN-Habitat), the United Nations Environment Programme (UNEP) and the International Labour Organization (ILO), as well as the World Bank and the United Nations regional commissions provided essential inputs.

4. This report should be read in conjunction with the other reports of the Secretary-General to the Commission during its thirteenth session dealing with freshwater and sanitation, in view of the inter-linkages that exist among these major themes and the cross-cutting issues common to them all.

II. Housing, tenure security and urban land management

A. Housing the urban poor

5. In many developing countries and countries with economies in transition, the formal housing market, often owing to weak housing policies, does not generally meet the housing needs of the urban poor, forcing them into informal settlements with shelter conditions that violate land development regulations and housing construction codes. Rapid urbanization, economic growth and, in some cases, financial globalization have made land acquisition costs for building affordable housing prohibitive for the landless urban poor including new migrants from poorer rural areas, in many cities.

6. While in some countries publicly owned construction companies are still involved in building low-cost housing, in most the public sector has left the housing construction field to private companies. Housing is not a public good; its construction does not enjoy economies of scale. The housing construction business

is, in most countries, highly competitive. The most appropriate role for Governments in this sector is to facilitate access to housing by low-income households, particularly by supporting the development of financial institutions that provide financing for affordable housing. Government mortgage lenders are one option; other options include partial equity grants or targeted interest rate subsidies on commercial housing loans to low-income households. Government also plays a crucial role in financing investment in public infrastructure (roads, electricity, gas, water and sanitation) to support low-cost housing development.

7. Governments have at their disposal a number of policy instruments to address demand-side and supply-side constraints that limit access to decent housing and constrain housing improvement. On the demand side, those instruments include: tenure security provisions; laws and regulations protecting property and inheritance rights, in particular for women; well-targeted and transparent subsidy schemes that are of affordable scale; the expansion of healthy and competitive mortgage lending institutions; and the establishment or strengthening of innovative arrangements to improve access of the urban poor to finance. On the supply side, instruments may include: removing overly restrictive land development and house-building regulations; improving construction standards and building codes; promoting the production and use of local construction technologies and building materials; and creating a competitive environment in the housing construction sector.

8. Priorities among policy instruments available to Governments will vary among countries depending on specific conditions and target groups. Experience, however, confirms the usefulness of a combination of policy instruments that address supply and demand-side constraints at the same time. In China, for example, in order to facilitate access to affordable housing for families with limited income and savings, authorities have combined fiscal incentives for real estate developers in the form of tax reductions or exemptions to provide housing within a negotiated price range and once-in-a-lifetime equity grants for people living in sub-standard housing to facilitate home ownership. Grants are based on the market value of these families' existing housing.[1]

9. Evidence also suggests that policy instruments work best if supported by an institutional framework that guides and oversees the performance of the housing sector as a whole, provides a platform for an effective interaction of public and private sector actors and community-based organizations that are active in meeting housing needs and ensures that housing policies and programmes benefit the urban poor and elicit their participation.[2]

10. Faced with the prospect of a further growth of slums and informal settlements, many Governments have recognized the need for integrated strategic approaches to the provision of affordable, secure and sanitary shelter, with proactive housing policies and programmes that seek to avert the further growth of slums and informal settlements and policies to improve the shelter situation in existing slums, including in the context of slum upgrading programmes.

11. A proactive policy of acquiring low-cost land on the urban periphery to set aside for future development of affordable housing for low-income households is an option Governments may wish to consider. If low-income housing is built on the urban periphery, it is essential to ensure that residents of such peri-urban communities are connected to the water, sanitation and energy infrastructures, have access to an adequate system of solid waste collection and safe and sanitary disposal

and are provided with adequate public transport links facilitating access to employment and social interaction.

12. In many cities, Governments and municipalities are large landowners. Long-term planning can help to identify spaces becoming vacant in the city centres such as old industrial areas, military facilities and docks. After such areas are reclaimed, they can be used for housing development, with some or all plots reserved for low-income housing.

13. Serviced land for sheltering the urban poor may be secured from private land markets through, for example, land-sharing, land-pooling and land-banking. Land-sharing is a practice that allows land owners to develop a portion of the land more intensively than permitted by normal regulations in exchange for allocating other parts of the land for sheltering slum-dwellers already residing in the area. Land-pooling engages a number of private landowners in urban fringe areas in a partnership for developing and servicing their lands in an integrated manner, thus reducing their development costs. The development of basic infrastructure and the provision of basic urban services for such areas can be financed through the sale of some plots, which can be purchased by the Government and allocated for the construction of low-income housing. In the case of land-banking, Governments acquire open land from the land market well in advance of assessed future housing demands (hence at relatively low prices) and hold it for low-income housing as demand grows.

14. Whether pursuing land-pooling, -sharing or -banking, public authorities engaged in these activities need to have good knowledge of the functioning of land markets and the capacity to make informed decisions and administer implementation processes. Decisions should be made on the basis of sustainable city development strategies or plans that identify medium and long-term land use and housing requirements.

15. Self-help shelter improvement is an important option in slum communities, enabling them to fulfil the housing needs and preferences of their residents within the limitations of their budgets. Community housing initiatives, often organized through associations of slum-dwellers, were most successful if explicitly recognized by national Governments and municipalities in their slum upgrading programmes and poverty reduction schemes and supported by investment in infrastructure and the provision of basic services, including water and sanitation, in combination with measures to secure land and housing tenure for slum-dwellers and create employment opportunities. Experience also suggests that Governments may consider a lenient approach to informal land subdivisions, standards and requirements for infrastructure installation and may accept the principle of gradual housing and community improvement. Stronger recognition by the formal banking sector of slum communities as potential customers could open new avenues for slum-dwellers to access credit. One option could be to develop finance products suitable to the housing needs in slum communities, in connection with the development of appropriate risk-sharing mechanisms to reduce the cost of lending issues related to housing and infrastructure finance are addressed in section V of this report as well as in the finance section of the companion reports on water (E/CN.17/2005/2) and sanitation (E/CN.17/2005/3).

16. Community banks of construction materials have played a useful role in community-based self-help shelter improvement, in some Latin American countries.

Construction materials can be purchased locally, and bulk purchases can be made directly from manufacturers and distributors. Such facilities can also provide opportunities to trade work for materials and can be a vehicle for capacity-building and technical training. Technical assistance centres set up at the local level have also proven useful in responding to the needs of slum-dwellers in the different phases of the housing improvement and community upgrading processes. According to the World Bank, such centres could assist in accessing durable building materials, in the use of construction techniques, in matters related to fiscal management and with the establishment of community savings schemes.[3]

17. Rental housing has an important role as a form of affordable housing for the poor and may be especially well-suited to the needs of newly formed households with small children, whose accumulated savings and current savings capacity may be limited. Expanding the supply of affordable rental housing may require large investments, suggesting the need for the mobilization of private sector investment. This, in turn, requires an appreciation of the basic financial principles that motivate private sector investment in rental housing and of the barriers that must be overcome to increase that investment. The essential policy challenge is to reconcile two core objectives: a reasonable rate of return for investors and an affordable rental level for low-income households. If, for example, private investors are to assume market risks relating to changes in the capital value of the dwellings and subsequent changes in the rental yields, they will demand to be compensated for them through a risk-adjusted rate of return. This, in turn, may necessitate government rental subsidies to low-income renters to maintain the affordability of rented dwellings.[4]

B. Security of tenure and access to land

18. Insecurity of residential tenure has many negative consequences. Living in informal housing situations on illegally occupied land, whether private or public, makes slum-dwellers extremely vulnerable to the threat of eviction. In addition, informal settlements are generally not eligible for public infrastructure or services as water supply, sewers, power and public transport. Residents of slums and informal settlements are often denied the right to participate in public decision-making processes that have a direct impact on them. In addressing security of tenure and access to land, the situation of the residents of informal settlements located on river banks or wetlands, near factories or waste dumps or in other areas that are undeveloped because of vulnerability to natural disasters, health hazards or safety factors deserves special attention.

19. Policy interventions by public authorities to provide security of tenure, infrastructure and services on illegally occupied land may be politically sensitive, as they could be interpreted as de facto recognition of their legal status. Such recognition may in turn encourage further illegal land occupation. Without regularization, however, slum-dwellers are reluctant to invest in improving their living environment, and service providers are reluctant to assume the risk of investing in infrastructure. Such issues can only be addressed on a case-by-case basis, depending on the political and economic context.

20. The pro-poor land act adopted in Belo Horizonte, Brazil, is an example of how a municipality may seek to remedy this predicament. Based on enabling legislation at the federal level, the local authority suspended and relaxed relevant laws, by-laws

and standards, on a temporary basis, in order to facilitate improvements and land tenure regularization. This enabled negotiations to take place between public authorities, service providers and slum-dwellers to establish a plan for the improvement and regularization of the settlements. Once approved, the plan became a legal instrument, enabling public intervention. It also empowered slum-dwellers to invest in improvements, comply with agreed codes and standards and, ultimately, gain legal recognition and title deeds.[5] Other cases in point are India, the Philippines and South Africa, which have adopted legislation that not only protects people from forced eviction, but also ensures that they are relocated only as a last resort and, in that event, are entitled to affordable shelter and basic services. In Africa, a number of countries are giving legal recognition to pre-existing customary tenure systems and transferring control over access to land to customary institutions.

21. Promoting flexible land tenure arrangements is another option that has been successfully applied. Namibia and Sri Lanka, for example, use block titles to entire sections of informal settlements. These block titles enable city authorities to incorporate parts of the city that were previously excluded and to begin the process of registering, and eventually titling, individual holders of land within these blocks. Legislating other flexible alternatives such as permanent or temporary occupancy rights, lease agreements, community land trusts or protection against unlawful eviction are also options that Governments could consider to improve tenure security and access to land. These arrangements are attractive because they do not place heavy financial demands on local government authorities.[6]

22. Legislation must be backed up by measures such as advocacy and awareness-raising campaigns to educate public officials, the courts and private developers on the issue of eviction. It should be stressed that eviction should only be used when absolutely necessary, for example, when slum communities and in dangerous or unhealthy locations, such as in disaster-prone areas, along railway tracks or on garbage dumps, and when alternative housing arrangements can be made. Those measures will yield best results if there is strong leadership and determination on the part of government authorities, supported by non-governmental organizations (NGOs) and organized movements of the urban poor. As demonstrated in various countries, there is also a need to raise awareness of the importance of acquiring secure tenure. People living in slums may perceive the risk of eviction to be negligible or feel that the benefits of such documentation are not a sufficient incentive to meet time-consuming and often bureaucratic requirements.

23. When formulating or implementing an urban land tenure policy, it is important for Governments to consider that tenure issues cannot be isolated from related policies of urban land management and city development. Tenure should be seen as part of a package of policy measures intended to improve the efficient and equitable use of urban lands as well as the living conditions of the urban poor. It is vital to build on tenure options that have worked well and have proved to be an incentive for people to invest their own labour and savings. It is also important to offer a range of tenure options, including ownership and rental options, to meet the diverse and changing needs of communities and households on a long-term basis.[7] Policies aimed at improving the security of tenure and access to land should emphasize women's equal rights to ownership and inheritance, as reflected in UN-Habitat's Global Campaign for Secure Tenure.

C. Land use, urban planning and transport

24. Proactive land management and urban planning are essential tools for sustainable city development. Such development requires a coherent policy approach to land use, housing, environment and transportation as well as cooperation among the relevant institutions. It also suggests integrating urban-rural linkages into national and urban planning processes.

25. Planning for the future of cities requires an efficient land administration, which can mediate among competing interests for urban land and make informed decisions on the use of land. The costs of technology, equipment and skilled human resources required for running an efficient land administration can be considerable. Governments or local authorities operating on tight budgets can consider a progressive expansion of land administration capabilities as technology and equipment are acquired and required human resources trained.

26. The quality of the planning processes depends, to a great extent, on the availability of up-to-date and accurate data and the ability of planners and decision makers to use it for the informed resolution of issues. This requires access to modern tools for data processing, including through a network of national and international data and information systems and sources.

27. In some cases, municipalities have experimented with new land planning and management tools, such as mixed-use zoning and variable area ratios of serviced land, the transfer of building rights without the transfer of land ownership and environmental protection zones.[3,8] Administrative "one-stop shops", in which all the necessary administrative procedures are conducted, can help reduce the cost of, and time spent, on the administrative procedures for land-use development.

28. The coordination of land-use and transport planning to encourage spatial settlement patterns that facilitate access to workplaces, urban services, schools and health care and promote social inclusion, thereby reducing the need to travel, is an important component of sustainable city development planning. Experience has shown that good results can be achieved with a flexible master plan that encourages the use of an optimal combination of modes of transport, including public transportation, private cars, cycling and walking, through appropriate pricing, spatial settlements policies and regulatory measures.

29. The cities of Curitaba, Brazil, Cuenca, Ecuador, and Bogotá, Colombia, for example, demonstrated that employing an urban planning design oriented to mass transit, bicycles and pedestrians, in combination with a well-functioning public transport infrastructure and land-use management system, can enable a shift from private motorized transportation to alternative transportation modes, thus reducing air pollution, congestion and accidents.[9] The Partnership for Clean Fuels and Vehicles and its Clearing House, located at UNEP headquarters, actively support developing countries in switching to cleaner fuels and cars through technology exchange, technology transfer and capacity-building.

30. In most large cities in the developing world, the informal transportation sector provides reasonably reliable and affordable transport and delivery services, especially for informal settlements. It is an important source of employment and income, particularly for new migrants to the city. On the other hand, the informal transport sector poses major challenges to sustainable city development. The

vehicles are often old, highly polluting and unsafe, and operators usually have no insurance to cover injuries or damage. Intense competition in the unregulated informal transport sector may cause aggressive driving, and present competition with the public transit system, reducing its economic viability. Some cities are addressing these problems by licensing and regulating the informal transport sector, setting vehicle standards and insurance requirements, banishing pedicabs or other small, slow vehicles from major streets, limiting the number of vehicles and establishing waiting and loading points off the busiest streets.[10]

31. Decisions on integrated land use and transport development seem to yield best results when planned with the active participation of municipalities and community organizations and implemented at the municipal level. As demonstrated by many European countries, decentralizing the responsibilities for urban transport and assigning them to municipalities, together with the decentralization of revenue-raising power, has proven an area of policy success in the development of transportation systems that contribute to sustainable city development. Policy interventions by national Governments or State or provincial government authorities are crucial to providing framework for municipalities to act, including assignment of legal, investment, land and property taxation authority.[11]

D. Participation and partnership for housing and urban services provision

32. Many city authorities have recognized the importance of bringing community organizations directly into the planning process and including the private sector and other non-governmental stakeholders in service delivery schemes. In some cases, municipalities tender service delivery contracts to community-based organizations and NGOs, recognizing that services are more likely to reach the urban poor through these channels. Where the formal business sector is providing water, sanitation and other infrastructure services, municipal authorities can subsidize services to poor households or require cross-subsidization by the private operator.

33. Expanding and upgrading services for the urban poor from small-scale service providers is another important option, in particular for the provision of water and sanitation services to low-income urban households living in areas difficult to service with conventional water distribution and sewerage networks. These providers generally operate without subsidies and with prices and services that compare favourably with official providers. There is increasing evidence to suggest that, in many locations, in particular smaller settlements and peri-urban areas, working with and through such providers can be a cheaper, more effective w y of improving and extending provision for water and sanitation than conven onal public sector provision or reliance on large-scale private companies.[12] Policy options and possible actions to improve access to water (E/CN.17/2005/2) and sanitation services (E/CN.17/2005/3) are presented in the Secretary-General's reports on water and sanitation.)

34. Public-private partnerships can be a promising tool for meeting the needs of the urban poor for housing, public transport, water, sanitation and other urban services. An important feature of this type of partnership is that while private sector partners may need to accept social responsibility for working in areas involving lower profit margins, public sector agencies involved need to become more market-

sensitive, with better knowledge of the operation of land and housing markets and the concept of risk-sharing.

35. In order for public-private partnerships to work effectively, they require a transparent, equitable and flexible regulatory framework, including the provision of incentives for the private sector. Experience shows that service charges and subsidies can have a decisive impact on the ability of private service providers to reach the poor. Performance-based subsidies can induce private operators to finance initial investments and have a positive effect on service delivery reaching a greater number of the poor,[13] while providing tax incentives can encourage private sector mortgage finance institutions to extend their services to this community. Because of the diversity of private sector actors in urban services provision, from the small vendor to the large company and because of the diverse needs of users, partnerships must be based on a real understanding of the local context to be able to truly contribute to meeting the needs of the urban poor.

36. Service delivery to the poor would greatly benefit from the involvement of civil society groups and community-based organizations in public-private partnerships. These organizations have usually gained valuable experiences in delivering services to low-income segments of society and have reliable information with regard to their circumstances and their actual needs for housing and associated services.

III. Developing a policy environment supportive to employment and enterprise development

37. Many cities in developing countries face the challenge of devising strategies and policies that increase the productivity of urban areas while supporting economic growth that benefits the poor. This essentially implies integration of a number of key elements in strategic planning for economic development and poverty reduction, including a coherent policy framework, with policies and regulatory instruments that help increase the productivity of existing enterprises, create new entrepreneurial opportunities and labour-intensive jobs and improve the urban poor's access to productive resources and market opportunities. Urban economic growth strategies that benefit the poor need to recognize the contribution of the informal sector to economic development and employment.

A. Employment in construction

38. The adoption of labour-intensive methods in construction and infrastructure development can contribute to the provision of much-needed services while providing employment opportunities and building the capacities and skills of the low-skilled unemployed urban workforce. Employment-intensive and local resource-based techniques can be applied to a wide range of infrastructure works, including road and sidewalk construction, small bridges, drainage systems, on-site sanitation, water supply and sewerage reticulation, land development, electrification, the collection of solid wastes and other construction.

39. Experience in many countries shows that explicit pro-employment approaches can yield high payback levels, at equal cost, including significant job-creation, the

development of local skills and small-scale contractors, import substitution through use of local resources and easier maintenance. Labour-intensive methods are particularly well-suited to infrastructure solutions in densely built-up slum areas. The challenge is to bring them to scale, with national and city authorities routinely giving preference to labour-based and local resources-based technologies whenever such options are cost-efficient and technically feasible. Technology transfer, both from developed to developing countries and among developing countries, relating to construction techniques, materials and standards can promote construction practices that maximize the economic, social and environmental benefits of new construction.

40. The procurement system is a practical instrument in the hands of municipalities that can be used to promote employment under decent working conditions, as well as other social and environmental objectives. Local authorities can give preference to small local businesses in contracts for the provision of basic urban services. Experience shows that the tendering process for public works and services can foster more entrepreneurial development if works are tendered as a series of smaller contracts, accessible to local contractors through simplified tender documents.

41. Community contracting, whereby a community group enters into a contractual agreement with local government to undertake works that improve local living conditions, has been used as a form of procurement to benefit the poor. In particular, the combination of community contracts with labour-based approaches presents many advantages in terms of community empowerment, job-creation and income generation, as well as capacity-building and partnership development.[14] Such arrangements also create a sense of ownership and civic pride, internalize profits, and improve transparency in the use of municipal resources.

B. Promoting the development of small enterprises

42. Local authorities can play an essential role in the design of appropriate policies to support the development of small enterprises, including through well-crafted and transparent regulatory frameworks, facilitated access to production assets and utilities and the formalization of informal employment. In particular, local authorities can play an important role in supporting small enterprises to comply with labour laws and safety standards. Recent research by ILO shows that, over time, small enterprises that comply with registration requirements create more employment than those that do not. The costs of formalization, however, and the local tax burden are often prohibitive for many new entrepreneurs. The simplification of the registration procedure in a municipality in the city of Lima resulted in a more than three-fold increase in enterprise registrations, from 1,100 to 4,000 between 1998 and 2000. The municipality reduced approximately 45 bureaucratic steps to 12, reducing processing time from 70 days to just 1. In addition, the municipality established a business advisory office that assists an average of 2,500 clients a month.[15]

43. To support the development of small enterprises, more emphasis can be given to raising awareness of the benefits of compliance with laws and regulations and providing technical assistance, instead of imposing fines for failure to comply. Compliance offers practical benefits to small-scale enterprises by increasing their access to support and services. The active involvement in policy reviews or reforms

of those directly affected can mobilize support for policies and result in higher levels of compliance.

44. For many micro and small businesses, a key challenge is gaining access to formal credit markets in order to avoid paying the high interest rates prevalent in informal markets. The market for micro and small-scale enterprise finance is generally characterized by relatively high administrative costs, which can be addressed by innovations in financial services, changes in the institutional infrastructure and policy reforms. Policy makers can address the lack of small-scale financial services by promoting locally based private-public banks, relaxing collateral requirements and offering loan guarantees or interest rate subsidies.

45. In addition to easier credit access, small enterprises would also benefit in terms of efficiency and productivity from improved access to technology, training and public utilities, including electricity, water, sanitation and telecommunications. Given the "public good" nature of much information on technologies and markets, Governments and local authorities may wish to provide support to information acquisition and dissemination efforts on behalf of small enterprises. The Internet can greatly facilitate this process.

46. Microenterprises operated from home are, in many instances, the only source of income for workers in the informal sector. People operating such businesses would benefit from health-care services and training on health and safety measures provided by public authorities. In addition, policies can be developed to allow street trading while assuring public safety and mobility. As a general principle, policy interventions should be guided by the recognition of the value of street trade for the poor, as both a source of income and an opportunity for purchasing goods at low prices.

C. Addressing the employment needs of special groups

47. Persistently high urban youth unemployment, compounded by continuing rural-to-urban migration, has continued to plague many cities in developing countries. Urban youth need to be actively, consistently and positively engaged in city life. Education, vocational training to develop business skills, apprenticeships and mentoring are useful means to improve the access of urban youth to job opportunities and to provide a basis for matching skills to demands in the urban labour market.

48. Assisting young men and women in starting new businesses is a good investment in the future. Financial, managerial and technical support are of particular importance in the start-up years of new businesses. The more support young entrepreneurs receive during that time, the better their chances are for building sustainable and prosperous businesses in the years to come.

49. Reaching young women and addressing their special needs and situations deserves particular attention. Special assistance programmes may be needed to facilitate the development of local entrepreneurship among the many poor women who work in the informal sector, and face limited entrepreneurial opportunities. Such programmes can include access to small loans on favourable terms, special training on market access and business counselling. In this regard, organizations of

women workers in the informal sector that represent their members in consultations or negotiations with local authorities can be useful.

50. The city of Cotonou has pursued an integrated approach that combines financial and non-financial assistance. Based on existing savings and credit systems, a mutual guarantee fund was established, offering loan facilities for groups of women entrepreneurs. Capacity-building for associations and collective initiatives underpinned the approach. A self-managed common facility centre was established with the support of the municipality, benefiting more than 2,000 women directly. The groups now have well-functioning relationships with local banks and the municipal authorities. Their success and visibility has led to the replication of the approach in other cities in Benin.[16]

51. The Amhara administrative region in Ethiopia offers another good example. There, associations of women microentrepreneurs organized a pilot trade fair, exhibiting their products in a central location in town. The women's commercial success, the sales of the day represented more than their regular monthly turnover, has sparked growing interest in membership and an increase in membership contributions. In consultation with the city authorities, one of the central road junctions has now been designated for the regular holding of trade fairs.[16]

52. In some Latin American countries, community childcare programmes have gained popularity among working parents, especially single women.[17] Women from the communities involved take care of a number of neighbourhood children in their homes. Parents and local authorities share the cost of supplies and salaries of the day-care providers. Food donations are often provided for feeding the children. Basic hygiene education is an integral part of the children's daily activity schedule.

IV. Mobilizing financial resources

53. According to UN-Habitat, multilateral and bilateral international assistance for housing and urban infrastructure is less than $5 billion annually, and less than 20 per cent of this amount is earmarked for slum upgrading. Whereas business sector investment in infrastructure increased rapidly during the 1990s, totalling more than $750 billion over the period from 1990 to 2001, less than 5 per cent of this amount is directed to slums and other types of informal settlements. The cost of achieving the Millennium Development Goals' (MDGs) target 11, that is, improving the lives of at least 100 million slum-dwellers by 2020, is estimated at between $70 and $100 billion.[18]

54. External financing, however, can at best cover only a small portion of the financial resources required to meet the needs of the urban poor for housing, infrastructure and urban services. Remittances from overseas workers can also be a significant source of finance for housing.[19] Nevertheless, domestic capital, both public and private, remains the main potential source of funding, in spite of continuing problems in mobilizing such resources in poor countries.

55. The poor have a variety of financial needs, including working capital for microenterprises, remittance and payment services, insurance and loans for housing, school fees and emergencies, and such a broad range of financial needs cannot easily be met by any single type of financial institution. An important objective of public policy would therefore be to encourage inclusive finance through the

development of financing institutions and financial products suitable to the requirements of the poor.

56. Traditionally, development banks, postal banks, farmers' banks and other public banking institutions have been an important source of credit for the poor. In many instances, they act as intermediaries to channel loans from multilateral development banks or donors to development programmes and projects whose beneficiaries include poor people. More recently, community-based organizations and microfinance institutions have taken on a more prominent role in providing financial services to the poor.

A. Promoting community-based approaches to the financing of infrastructure and housing

57. Community-based organizations have registered notable successes in the areas of housing development and services such as health, water and sanitation. Savings and loan activities are a central function of many such organizations, drawing people together on a regular and continuous basis to make decisions on lending to meet the individual and collective needs of their members. The process educates participants on the management of the community's investments and on access to external sources of finance. These savings and loan activities can be instrumental in meeting the needs of communities for improved housing, income-generation, social welfare, emergency credit and environmental improvements.[20]

58. Networking among community-based organizations can facilitate exchanges of experience, improve access to larger financial resources with greater opportunities for risk pooling and enhance negotiating power vis-à-vis external agencies. Networking can also lead to the creation of common funds, as suggested by the experience of several Asian countries, including Thailand and Cambodia. These networks have begun working with municipalities and other local organizations on issues crucial to the lives of the members, such as citizens' rights, housing, welfare, community enterprises and community environment and health.

59. With regard to housing loans, although a certain scale is achieved by forming a network, such a network will often still need external funds to provide adequate finance for the poor. In addition, many poor communities find it difficult to finance both land acquisition and housing development. In such cases, Governments may be able to provide land to community groups, which would then borrow collectively to finance housing development. Revolving funds in some countries have supported large-scale improvements in housing for the urban poor and associated infrastructure. It is important that such funds be managed in a participatory manner so that the needs of the users are reflected in the terms and conditions of lending.

60. Community savings programmes for housing have been used successfully, with individual savings pooled into legal trusts, thereby providing a mechanism to attract additional financing and protect against defaulting, and through which to receive subsidies. Funds can be used for locally purchased building materials, labour or down payments for land purchases.

61. From the perspective of the donors, one way to increase the proportion of funding that directly reaches people living in poverty is by channelling support through a local fund.[21] Experience shows that community involvement in the

management of such funds has been successful, resulting in an allocation of funds that reflects the needs of the communities.[22] This type of locally managed fund for community initiatives tends to work best in cities or city districts where there are already effective, representative community organizations or local, broad-based NGOs.

62. Community-based organizations tend to approach housing problems in an integrated way, simultaneously addressing community infrastructure and services. However, there is still a need to connect these initiatives to the provision of large-scale infrastructure and services such as city-wide sanitation systems or solid waste management.[23] Donors could complement their contributions to local funds by supporting links from local communities to wider infrastructure and service networks.

B. Promoting and scaling-up microfinance schemes

63. As demonstrated in many countries, microfinance is a promising financing mechanism that is well suited to the characteristics of the informal sector and has gained prominence as a source of financing for low-income communities.[24] Microfinance institutions have been developed to respond to certain financing needs of the poor, in particular for short-term working capital loans to start up or expand small businesses.

64. In recent years, there has been some diversification of microfinance towards supporting the incremental investments of the poor in home improvement, reflecting the dual function of many homes as places of business. More than 40 programmes have been identified in Asia, Latin America and the Caribbean and Africa by various studies.[25] In some cases, these programmes have developed as an extension of microfinance for small-scale enterprises, once again reflecting the dual function of houses as shelter and workplace. In other cases, housing microfinance institutions have been developed out of community advocacy groups for shelter provision.[26]

65. There are, however, limitations to the actual financial capacities of microfinance institutions. Successfully expanding small-scale enterprises may require growth capital beyond what microfinance institutions can offer, and accessing bank financing may be difficult. Depending on the degree to which bank and capital markets are developed, public development banks or private banks can play a significant role in financial intermediation and liquidity generation. In Latin America and the Caribbean, guaranteed funds for small businesses help small and medium-scale enterprises gain access to bank financing. Credit scoring systems are another alternative for making bank loans less costly and more readily available to these enterprises.

66. The amount of financing available for housing microfinance remains far from what is needed to meet the demands of an ever-growing urban poor population. Microfinance for housing must be sealed-up in order to reach a wider proportion of those requiring such services. These institutions are still not well-suited to providing the longer-term and larger-scale finance needed for home purchases or the purchase of costly capital equipment, though it is possible that they could evolve in this direction. Commercial banks and financial housing institutions can also make an important contribution to financing poor households by extending their services to communities beyond their usual upper and middle-income customers.

67. In order for microfinance institutions to grow and diversify, policies and regulations may need to be adjusted to better respond to the needs of these institutions. In addition, the provision of microfinance is greatly enhanced by a clear, transparent and equitable subsidy regime and the promotion of linkages between savings, subsidy and credits. Through the creation of networks among microfinance institutions, an effective lobby for policy change can be established to support expanded financial services to the poor.[27]

C. Developing market-based financial instruments and institutions

68. The combined effect of decentralization and rapid urbanization has confronted cities with an even greater need to improve the provision of basic infrastructure and to mobilize resources for this purpose. In having to cope with smaller transfers from the central Government and competing claims for scarce budgetary resources, local governments often face large resource gaps for infrastructure investments.

69. Many developing countries have established municipal development banks to assist local governments in financing investments. Some of these banks administer pools of loans from multilateral development banks and government sources, while others serve as a bridge to private credit markets, borrowing on domestic or foreign markets, mostly with central Government guarantees, and on-lending to local governments. With the maturation of the financial sector, these development banks can be made more market-oriented, raising long-term resources on private credit markets and offering a wide range of financial services geared to the needs of local governments. They can compete with other financial institutions based on their competitive advantage, in their knowledge of the local government sector. Municipal development banks may be able to mobilize long-term debt on private markets for on-lending for priority local infrastructure investments.

70. Municipalities with good financial standing and track records, a favourable credit rating and a solid project proposal have a good chance of meeting some of their investment needs by tapping local bond markets.[28] Local governments can issue "general obligation" bonds backed by their taxing power, or "revenue" bonds secured by the earnings of specific projects, such as water supply and highways, for which the bonds are issued.

71. With regard to financing through municipal bonds, the challenge is to expand the funding pool for local governments by tapping the savings of private individuals and institutions. The development of domestic municipal bond markets should go hand-in-hand with efforts towards improving the municipal revenue base and in the institutional framework within which municipal services are delivered. Effective mechanisms to diversify and transfer risks are also necessary.

72. Municipal authorities planning to issue bonds may need to obtain a credit rating from a recognized rating agency. Bond guarantees, whether from the central Government or from an international financial institution, will increase the chance of successful financing, but must be used sparingly. Coordinated efforts involving commercial banks, debt underwriters, institutional investors, bond insurers, utility operators, rating agencies, regulators and central and local governments need to be directed to creating the conditions for the development of domestic credit markets for local infrastructure finance.

73. Municipal development banks and bond markets are not mutually exclusive; indeed, they play complementary roles, providing local governments with different options for funding, infrastructure and other investments. While local governments with a good financial record may be able to tap the domestic municipal bond markets directly, others are likely to rely on the pooling capabilities of financial institutions to mobilize long-term credit.[29]

D. Technical and financial assistance

74. The efforts of developing countries to mobilize domestic financial resources could be supported by international development partners. Bilateral development agencies and regional and multilateral finance institutions can assist in financial sector development and capacity-building in financial management, while municipalities and local authorities may need particular support in capacity-building for managing funds, revenue collection and tendering contracts to private service providers. Multilateral development partners can play a crucial brokering role, bringing together both development and financial partners and field-testing financial mechanisms that mobilize domestic capital for urban development. Assistance in adjusting the regulatory frameworks to reflect conditions in domestic and international capital markets may also be required.

75. Grant support, equity investments and loan guarantees are some of the specific forms of financial assistance that can, preferably in combination, mobilize domestic capital in favour of human settlement development and slum upgrading. NGOs, particularly those that support income-generating activities of slum-dwellers and urban poor organizations, may be primary candidates for grant support. Equity investment in microfinance institutions is extremely useful because it strengthens their capital base and helps them build loan portfolios over time. This is particularly true for institutions that seek to diversify their lending portfolios beyond small-business to include home improvement and tenant buy-out schemes. Loan guarantees, such as equity investments, can leverage additional capital for small business development, housing improvement and slum upgrading, reassuring lending institutions that the guarantor will meet the obligations if the borrower fails to repay. Such an assurance can motivate lending institutions to grant more loans than perceived or actual risk would otherwise justify. Alternatively, guarantors can underwrite bonds issued by cities and local authorities to finance infrastructure.[30]

V. Moving ahead: towards a framework for action

76. **New approaches are required for the planning and development of human settlements. These approaches must integrate urban planning, housing development, the delivery of safe drinking water and sanitation services, solid waste management, education and health-care services, transportation and employment and enterprise development. While there are many examples worldwide of the impact of local policies and programmes on reducing urban poverty, the challenge is to find solutions to avert the growth of slums and informal settlements that work at city and nationwide scales. The economic, social and environmental interdependence between rural and urban areas requires an approach to sustainable human settlements development that is**

both balanced and mutually supportive. Where slums and informal settlements host the majority of the rapidly growing urban population, sustainable city development cannot be separated from slum upgrading and the integration of those living in such areas into the wider urban economy.

77. **Policy interventions benefiting the poor by Governments and municipalities seem to be most effective if they support community-based programmes or strategies. Experience shows that the most powerful examples of slum upgrading have been at the community level, where organizations of slum-dwellers, often in the form of village councils or associations, have built their own capacities to improve their homes and neighbourhoods. Policymaker's recognition of the urban poor as agents of change has proven invaluable in empowering them to emerge from the vicious cycle that traps them in slums and forge partnerships with local authorities in implementing pro-poor, community-based programmes.**

78. **The full participation of all relevant stakeholders in decision-making and implementation is an important learning process. Governments and local authorities will have to assume the lead in setting the rules to enable the various stakeholders to play the roles that provide the best results in partnership. Lasting partnerships require time for the stakeholders to know and trust each other and to learn to work in concert.[31] For that to happen, government authorities will need to build their own capacities to communicate the main principles of participation and inclusive decision-making to their partners. Enhanced cooperation and coordination among United Nations agencies and with other bilateral and multilateral development agencies could create a solid basis for more effective assistance to Governments and local authorities in building such capacity.**

79. **Gender equality remains a particular challenge in most countries. Even in countries in which legislation enabling gender equality exists, social and cultural circumstances often prevent women from having full and equal access to land, housing and property.**

80. **Mobilizing the full potential of domestic capital and attracting financial means from external sources for expediting the implementation of the human settlements goals and targets contained in Agenda 21 and the Johannesburg Plan of Implementation, including target 11 of the MDGs, require a coherent macroeconomic policy framework and laws and regulations that are conducive to sound financial management. At the international level, increasing official development assistance (ODA) to the levels needed to improve housing and urban services to the poor and to achieve target 11 of the MDGs remains an essential and continuing challenge, as is the consideration of practical ways to ensure that ODA leverages domestic financial resources for sustainable human settlements development. Recent commitments by donors to increase ODA, including those made at the International Conference on Financing for Development, and commitments to support developing countries in meeting the MDGs could increase the resources available for sustainable human settlements development.**

Notes

[1] HSP/WUF/2/7.

[2] Stephen Mayo, "The Do's and Don'ts of Housing Policy", World Bank, Infrastructure Notes, April 1994.

[3] "Brazil: Progressive Low-Income Housing: Alternatives for the Poor" (World Bank report No. 22032 BR), December 2002.

[4] The Allen Consulting Group, "Better housing futures: stimulating private investment in affordable housing", *Report to the Affordable Housing Forum*, 2004; see also: Alain Gilbert, Rental housing: an essential option for the urban poor in developing countries (UN-Habitat publication, 2003).

[5] HSP/WUF/2/3.

[6] HSP/WUF/2/6.

[7] Geoffrey Payne, "Innovative approaches to tenure", *Habitat Debate*, vol. 7, No. 1, March 2001.

[8] *Municipal Land Management in Asia: A Comparative Study*, Regional Network of Local Authorities for the Management of Human Settlements (CITYNET), 1995.

[9] http://www1.oecd.org/cem/UrbTrav/Workshops/LandUse/LiGorham.pdf.

[10] *Informal Transport in the Developing World*, UN-Habitat, Nairobi, 2000.

[11] *Implementing Sustainable Urban Transport Policies: Moving Ahead: National Policies to Promote Cycling*, European Conference of Ministers of Transport, 2004.

[12] HSP/WUF/2/9.

[13] "Pro-poor regulation" (Asian Development Bank background paper), prepared for the ADB Conference on Infrastructure Development, 2002.

[14] This has been demonstrated, for example, by the Hanna Nassif community-based upgrading project in the United Republic of Tanzania: see Tournée, J. and van Esch, W., "Community Contracts in Urban Infrastructure Works: Practical lessons from experience, ILO, 2001.

[15] *Mejores Práticas Municipales en Desarrollo Económico Local*, PROMDE/ILO, Lima, 2002.

[16] http//:www.ilo.org/seed.

[17] "What are the Policy Issues?" *Labor Markets & Employment*, World Bank publication, 2001.

[18] HSP/WUF/2/7.

[19] *World Economic and Social Survey 2004* (United Nations publication, Sales No. 04.II.C.1.

[20] Somsook Boonyabancha, "Savings and loans: Drawing lessons from some experiences in Asia". *Environment and Urbanization*, vol. 13, No. 2, International Institute for Environment and Development, October 2001.

[21] The City Community Challenge Fund of the Department for International Development of the United Kingdom is one example; the Swedish International Development Agency has programmes in Central America and South Africa; the Danish Cooperation for Environment and Development has assisted the Urban Community Development Activities project in Thailand.

[22] Jo Beall and Sanjiv Lingayah, "Interim external evaluation report on the City Community Challenge Fund pilot programme", January 2002.

[23] David Satterthwaite, "Reducing Urban Poverty: constraints on the effectiveness of aid agencies and development banks and some suggestions for change", *Environment and Urbanization*, vol. 13, No. 1, International Institute for Environment and Development, April 2001.

[24] According to the Micro-Credit Summit Campaign, as of the end of 2002, 2,572 microcredit institutions reported having 67.6 million clients with an outstanding loan, 41.6 million of whom were considered among the poorest. Of the latter, 79 per cent, or 32.7 million, were women. The number of the poorest reached has grown at an average rate of about 40 per cent per year since 1997: see: Sam Daley-Harris, "State of the micro-credit: summit campaign report 2003", Micro-Credit Summit campaign, 2004.

[25] For example: Harvard University Graduate School of Design/Development Alternatives Inc./USAID, "Housing microfinance initiatives: Synthesis and regional summary, 2000"; International Institute for Environment and Development (*HiFi News*, No. 9, September 2001); Cities Alliance, "Shelter finance for the poor series", 2003.

[26] For instance, large organizations and federations formed by the urban poor and homeless in Cambodia, Thailand, India, the Philippines, Namibia, South Africa and Zimbabwe have usually grown out of local savings groups. These organizations not only provide housing and income-generating credits, they also lobby Governments to make land, infrastructure and building policies more pro-poor: see: Celine d'Cruz and David Satterthwaite, "The current and potential role of community-driven initiatives to significantly improve the lives of 'slum' dwellers at local, city-wide and national levels", August 2004.

[27] The Consultative Group to Assist the Poor, "CGAP phase III strategy, 2003-2008", January 2003.

[28] Good examples where the gap has been filled in part by tapping municipal bond markets include: Ahmedabad and Tamil Nadu urban development bonds of India, several municipalities of the Philippines and the Tlalnepantla municipality of Mexico. There is also a long history of bond issuance by municipalities and utilities in South Africa. A number of Eastern European counties are also entering the municipal bond markets.

[29] Samir El Daher, "Specialized financial intermediaries for local governments: a market-based tool for local infrastructure finance" (World Bank infrastructure notes), 2000.

[30] HSP/WUF/2/7.

[31] Rosanna Nitti and Shyamai Sarkar, "Reaching the poor through sustainable partnerships: the slum sanitation program in Mumbai, India" (World Bank Urban Notes, No. 7), 2003.